

**THE OFFICE OF REGULATORY STAFF  
SURREBUTTAL TESTIMONY AND  
EXHIBITS**

**OF**

**IVANA C. GEARHEART**

**OCTOBER 28, 2013**



**DOCKET NO. 2013-201-WS**

**Application of Utilities Services of South  
Carolina, Incorporated for Adjustment of  
Rates and Charges**

**SURREBUTTAL TESTIMONY OF IVANA C. GEARHEART**

**FOR**

**THE OFFICE OF REGULATORY STAFF**

**DOCKET NO. 2013-201-WS**

**IN RE: APPLICATION OF UTILITIES SERVICES OF SOUTH CAROLINA,  
INCORPORATED FOR ADJUSTMENT OF RATES AND CHARGES**

**Q. HAVE YOU PRE-FILED DIRECT TESTIMONY ON BEHALF OF THE  
SOUTH CAROLINA OFFICE OF REGULATORY STAFF (“ORS”) IN  
THIS PROCEEDING?**

**A.** Yes. I pre-filed direct testimony reflecting ORS findings in this proceeding on October 3, 2013.

**Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

**A.** The purpose of my surrebuttal testimony is to respond on behalf of ORS to the issues raised in the Utilities Services of South Carolina, Inc.’s (“USSC” or “the Company”) rebuttal testimony of Kirsten Markwell filed on October 18, 2013. The issues raised in the rebuttal testimonies of Steven Lubertozi, Pauline Ahern and Dylan W. D’Ascendis with regards to ORS’s Adjustment 31, are addressed by ORS Witness Douglas Carlisle in his surrebuttal testimony. ORS Witness Willie Morgan addresses, in his surrebuttal testimony, the issues raised in the rebuttal testimonies of Patrick Flynn, Mac Mitchell, Karen Sasic and Kirsten Markwell regarding service revenues, items that should have been expensed rather than capitalized and plant nonallowables.

1    **Q.     WHAT IS ORS'S POSITION REGARDING MAINTENANCE EXPENSES**  
2           **(ORS ADJUSTMENT 6)?**

3    **A.**           ORS proposes to increase maintenance and repair expenses by \$48,551 to  
4           include expenditures booked to plant that should have been expensed.

5           Mr. Morgan explains, in his surrebuttal testimony, his recommendation to  
6           expense rather than capitalize these items, as well as reasons for excluding some  
7           of the items.

8    **Q.     WHAT IS ORS'S POSITION REGARDING CHEMICAL EXPENSES**  
9           **(ORS ADJUSTMENT 8)?**

10   **A.**           ORS proposes to decrease chemical expenses by (\$3,928) to remove  
11           nonallowable items. Mr. Morgan explains, in his surrebuttal testimony, his  
12           recommendation to exclude items without proper documentation.

13   **Q.     WHAT IS ORS'S POSITION REGARDING TRANSPORTATION**  
14           **EXPENSES (ORS ADJUSTMENT 9)?**

15   **A.**           USSC's witness Kirsten Markwell stated in her rebuttal testimony that  
16           ORS used an incorrect Equivalent Residential Customer ("ERC") count to  
17           calculate the proper percentage for a Vac truck expense allocation. ORS used the  
18           ERCs associated with each of Utilities Inc's SC companies with sewer systems.

19   **Q.     WHAT IS ORS'S POSITION REGARDING RATE CASE EXPENSES**  
20           **(ORS ADJUSTMENT 13)?**

21   **A.**           ORS acknowledges that USSC may incur additional expenses associated  
22           with this rate case proceeding. ORS included known and measurable rate case  
23           expenses for which proper documentation was provided as of September 3, 2013

1 in its computation of allowable expenses. After further review, ORS agrees with  
2 USSC to include an invoice for \$35 related to continuing property record  
3 preparation.

4 **Q. WHAT IS ORS'S POSITION REGARDING THE RENT ADJUSTMENT**  
5 **(ORS ADJUSTMENT 15)?**

6 **A.** Ms. Markwell's rebuttal states that the Company is in agreement with a  
7 reduction to rent but the Company believes that ORS should have included the  
8 disallowed portion of the rent in another subsidiary's rate case proceedings. ORS  
9 asserts that the Company is responsible for properly recording its expenditures.

10 **Q. WHAT IS ORS'S POSITION REGARDING MISCELLANEOUS**  
11 **EXPENSES (ORS ADJUSTMENT 16)?**

12 **A.** ORS does not agree with the Company's proposed leak mitigation  
13 adjustment. This adjustment is discussed in detail in Mr. Willie Morgan's  
14 surrebuttal testimony. Additionally, Ms. Markwell's rebuttal states that the  
15 Company is in agreement with the reduction of miscellaneous expenses for  
16 nonallowable items but the Company believes that ORS should have included  
17 these items in another subsidiary's rate case proceedings. ORS asserts that the  
18 Company is responsible for properly recording its expenditures.

19 **Q. WHAT IS ORS'S POSITION REGARDING THE CUSTOMER GROWTH**  
20 **ADJUSTMENT (ORS ADJUSTMENT 24)?**

21 **A.** This adjustment is discussed in detail in Mr. Willie Morgan's surrebuttal  
22 testimony.

**Q. WHAT IS ORS'S POSITION REGARDING PLANT IN SERVICE (ORS  
ADJUSTMENT 25)?**

**A.** ORS included the items in the following table in its calculation of plant in service. The exhibit numbers referenced in the table refer to exhibits attached to my surrebuttal testimony. The items, as noted, are agreed to by ORS and the Company. Mr. Morgan's Surrebuttal Testimony and Exhibits discuss the items not agreed upon by ORS and the Company.

Per Application	\$ 15,617,584	\$ 1,050,720	Agreed, ICG-5
Prior Commission Adjustments	\$ (275,541)	\$ (25,417)	Agreed
CPR Adjustment - 2007	\$ (332,077)	\$ (20,558)	
CPR Adjustment - 2008	\$ (153,828)	\$ (16,706)	
CPR Adjustment - 2009	\$ (185,545)	\$ (6,541)	
CPR Adjustment - 2010	\$ (275,722)	\$ (12,669)	
CPR Adjustment - 2011	\$ (146,247)	\$ (2,789)	
CPR NonAllowable - 2012	\$ (19,956)	\$ (2,180)	
CPR to Expenses - 2012	\$ (84,191)	\$ (416)	
Captive Adjustment - 2008	\$ (14,086)	\$ (1,693)	Agreed
Captive Adjustment - 2009	\$ (18,491)	\$ (967)	Agreed
Captive Adjustment - 2010	\$ (21,906)	\$ (1,581)	Agreed
Captive Adjustment - 2011	\$ (24,949)	\$ (1,344)	Agreed
Captive Adjustment - 2012	\$ (14,828)	\$ (1,991)	Agreed
Capital Improvements Adjustment - 2008	\$ (55,705)	-	
Capital Improvements Adjustment - 2009	\$ (136,578)	-	
Capital Improvements Adjustment - 2010	\$ (12,456)	-	
Capital Improvements Adjustment - 2011	\$ (110,824)	-	
Retirements Adjustment - Purdy Shores	\$ (339,854)	-	
Retirements Adjustment - Foxwood Water	\$ (126,828)	-	
2013 General Ledger Additions Actual 2013	\$ 121,749	\$ 20,325	Agreed
2013 Pro forma Plant through 09/1/13	\$ 277,432	\$ -	Agreed
Maintenance Expenses to be Capitalized	\$ 12,425	\$ 17,401	
ORS Vehicle Adjustment to Per Books @ 09/01/13	\$ (43,659)	\$ (612)	
ORS Computer Adjustment to Per Books @ 09/01/13	\$ (143,480)	\$ (7,976)	Agreed
Total ORS Adjustment to Plant in Service	(2,125,145)	(65,714)	ICG-2, ICG-3
<b>ORS Adjusted Plant In Service</b>	<b>13,492,439</b>	<b>985,006</b>	<b>ICG-2, ICG-3</b>
<b>ORS Adjusted Plant In Service Combined</b>	<b>14,477,445</b>		<b>ICG-1</b>

Based on the recommendations of ORS Witness Morgan, ORS removed from plant in service, certain Continuing Property Record ("CPR") items for 2007 thru 2011, CPR Nonallowable items for 2012, CPR items that should have been

1       expensed in 2012 and Capital Improvements for 2008 thru 2011. These  
2       expenditures were capitalized in 2007, 2008, 2009, 2010, 2011 and 2012 by the  
3       Company, whereas ORS determined they should have been either disallowed or  
4       expensed. Mr. Morgan addresses the treatment of these costs further in his  
5       surrebuttal testimony. After further review, ORS agrees that the Company should  
6       have the opportunity to recover the extraordinary retirements related to the  
7       interconnection of Purdy Shores and Foxwood Water to other entities. ORS  
8       agrees with the Company's proposed 10-year amortization period. ORS  
9       determined that the net book value of assets for Purdy Shores and Foxwood Water  
10      for extraordinary retirements totaled \$466,682. This results in an additional  
11      expense of \$46,668 annually. See Surrebuttal Exhibit ICG-5.

12                ORS recalculated the depreciation expense for certain assets located at the  
13      Company's Northbrook facility. As mentioned in Ms. Markwell's rebuttal  
14      testimony these assets have different depreciation rates other than 1.50%. The  
15      recalculated depreciation expense is detailed in Surrebuttal Exhibit ICG-5.

16                ORS included total vehicle costs of \$247,173 in plant in service. The  
17      difference between ORS and the Company is attributed to ORS's reallocation of  
18      the vehicles to the appropriate subsidiary. The statement in Ms. Markwell's  
19      rebuttal testimony that ORS used a 48-month service life for USSC vehicles is not  
20      accurate. ORS used a 72-month service life for all USSC vehicles.

1     **Q.   WHAT IS ORS'S POSITION REGARDING THE DEPRECIATION**  
2     **EXPENSE ADJUSTMENT (ORS ADJUSTMENT 17)?**

3     **A.**           ORS increased depreciation expense for adjustments to plant in service.  
4           An explanation and a breakdown of ORS's recalculated depreciation is shown in  
5           Surrebuttal Exhibit ICG-5.

6     **Q.   WHAT IS ORS'S POSITION REGARDING ACCUMULATED**  
7     **DEPRECIATION (ORS ADJUSTMENT 27)?**

8     **A.**           ORS recalculated accumulated depreciation for ORS's plant in service and  
9           depreciation expense adjustments. See Surrebuttal Exhibit ICG-5.

10    **Q.   DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

11    **A.**           Yes.

Utilities Services of South Carolina, Inc.  
Docket No. 2013-201-WS  
Operating Experience, Rate Base and Rates of Return  
For the Test Year Ended December 31, 2012  
Combined Operations

Description	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Applicant's Proposed Increase \$	(5) After Applicant's Proposed Increase \$
<b>Operating Revenues:</b>					
Service Revenues - Water	2,970,223	(2,225) (A)	2,967,998	1,381,431 (DD)	4,349,429
Service Revenues - Sewer	179,041	5,227 (A)	184,268	106,493 (DD)	290,761
Miscellaneous Revenues	98,231	11,140 (B)	109,371	50,727 (EE)	160,098
Uncollectible Accounts	(41,990)	(183) (C)	(42,173)	(19,895) (FF)	(62,068)
<b>Total Operating Revenues</b>	<b>3,205,505</b>	<b>13,959</b>	<b>3,219,464</b>	<b>1,518,756</b>	<b>4,738,220</b>
<b>Maintenance Expenses:</b>					
Salaries and Wages	430,290	(38,465) (D)	391,825	0	391,825
Purchased Power	179,974	(2,086) (E)	177,888	0	177,888
Purchased Sewer & Water ( Pass Through)	33,244	0	33,244	0	33,244
Purchased Water - Supplemental	126,396	0	126,396	0	126,396
Maintenance and Repair	290,422	48,551 (F)	338,973	0	338,973
Maintenance Testing	132,680	(19,944) (G)	112,736	0	112,736
Meter Reading	59,729	0	59,729	0	59,729
Chemicals	96,059	(3,928) (H)	92,131	0	92,131
Transportation	70,106	(6,287) (I)	63,819	0	63,819
Operating Expense Charged to Plant	(134,184)	(48,088) (J)	(182,272)	0	(182,272)
<b>Total</b>	<b>1,284,716</b>	<b>(70,247)</b>	<b>1,214,469</b>	<b>0</b>	<b>1,214,469</b>
<b>General Expenses:</b>					
Salaries and Wages	188,998	44,705 (K)	233,703	0	233,703
Office Supplies & Other Office Expense	94,735	(11,591) (L)	83,144	0	83,144
Regulatory Commission Expense	15,194	49,631 (M)	64,825	0	64,825
Pension & Other Benefits	110,789	18,823 (N)	129,612	0	129,612
Rent	20,910	(1,335) (O)	19,575	0	19,575
Insurance	57,597	0	57,597	0	57,597
Office Utilities	154,616	0	154,616	0	154,616
Outside Services - Other	39,202	0	39,202	0	39,202
Miscellaneous	(395)	(20,760) (P)	(21,155)	0 (GG)	(21,155)
<b>Total</b>	<b>681,646</b>	<b>79,473</b>	<b>761,119</b>	<b>0</b>	<b>761,119</b>
Depreciation	362,166	(13,031) (Q)	349,135	0	349,135
Amortization of CIAC	(2,045)	(78) (R)	(2,123)	0	(2,123)
Taxes Other Than Income	550,123	24,897 (S)	575,020	14,627 (HH)	589,647
Income Taxes - State & Federal	(42,626)	26,977 (T)	(15,649)	575,329 (II)	559,680
Amortization of Plant Acquisition Adjustment	19,473	(19,473) (U)	0	0	0
<b>Total</b>	<b>887,091</b>	<b>19,292</b>	<b>906,383</b>	<b>589,956</b>	<b>1,496,339</b>
<b>Total Operating Expenses</b>	<b>2,853,453</b>	<b>28,518</b>	<b>2,881,971</b>	<b>589,956</b>	<b>3,471,927</b>
<b>Total Operating Income</b>	<b>352,052</b>	<b>(14,559)</b>	<b>337,493</b>	<b>928,800</b>	<b>1,266,293</b>
Interest During Construction	(1,286)	1,286 (V)	0	0	0
Customer Growth	0	96 (W)	96	253 (JJ)	349
<b>Net Income for Return</b>	<b>350,766</b>	<b>(13,177)</b>	<b>337,589</b>	<b>929,053</b>	<b>1,266,642</b>
<b>Original Cost Rate Base:</b>					
Gross Plant in Service	16,668,304	(2,190,859) (X)	14,477,445	0	14,477,445
Accumulated Depreciation	(2,640,365)	315,998 (Y)	(2,324,367)	0	(2,324,367)
Net Plant in Service	14,027,939	(1,874,861)	12,153,078	0	12,153,078
Cash Working Capital	245,796	1,153 (Z)	246,949	0	246,949
Contributions in Aid of Construction	(123,238)	78 (AA)	(123,160)	0	(123,160)
Accumulated Deferred Income Taxes	(1,622,415)	0	(1,622,415)	0	(1,622,415)
Plant Acquisition Adjustment	1,083,984	(1,083,984) (BB)	0	0	0
Customer Deposits	(141,395)	0	(141,395)	0	(141,395)
<b>Total Rate Base</b>	<b>13,470,671</b>	<b>(2,957,614)</b>	<b>10,513,057</b>	<b>0</b>	<b>10,513,057</b>
<b>Return on Rate Base</b>	<b>2.61%</b>		<b>3.21%</b>		<b>12.05%</b>
<b>Operating Margin</b>	<b>-5.47%</b>		<b>-0.78%</b>		<b>19.08%</b>
<b>Interest Expense</b>	<b>526,204</b>	<b>(163,445) (CC)</b>	<b>362,759</b>		<b>362,759</b>

Note: Return on Rate Base in column (1) is calculated by using Total Operating Income divided by Total Rate Base.



Utilities Services of South Carolina, Inc.  
Docket No. 2013-201-WS  
Operating Experience, Rate Base and Rates of Return  
For the Test Year Ended December 31, 2012  
Water Operations

<u>Description</u>	(1) <u>Application Per Books</u> \$	(2) <u>Accounting &amp; Pro Forma Adjustments</u> \$	(3) <u>After Accounting &amp; Pro Forma Adjustments</u> \$	(4) <u>Applicant's Proposed Increase</u> \$	(6) <u>After Applicant's Proposed Increase</u> \$
<b><u>Operating Revenues:</u></b>					
Service Revenues - Water	2,970,223	(2,225) (A)	2,967,998	1,381,431 (DD)	4,349,429
Miscellaneous Revenues	93,044	12,796 (B)	105,840	49,514 (EE)	155,354
Uncollectible Accounts	(39,773)	65 (C)	(39,708)	(18,471) (FF)	(58,179)
<b>Total Operating Revenues</b>	<b>3,023,494</b>	<b>10,636</b>	<b>3,034,130</b>	<b>1,412,474</b>	<b>4,446,604</b>
<b><u>Maintenance Expenses:</u></b>					
Salaries and Wages	407,571	(36,434) (D)	371,137	0	371,137
Purchased Power	165,077	(2,165) (E)	162,912	0	162,912
Purchased Water - Pass Through	33,244	0	33,244	0	33,244
Purchased Water - Supplemental	126,396	0	126,396	0	126,396
Maintenance and Repair	239,814	65,988 (F)	305,802	0	305,802
Maintenance Testing	106,016	(19,944) (G)	86,072	0	86,072
Meter Reading	56,575	0	56,575	0	56,575
Chemicals	90,987	(3,721) (H)	87,266	0	87,266
Transportation	66,404	(5,590) (I)	60,814	0	60,814
Operating Expense Charged to Plant	(127,099)	(45,549) (J)	(172,648)	0 (GG)	(172,648)
<b>Total</b>	<b>1,164,985</b>	<b>(47,415)</b>	<b>1,117,570</b>	<b>0</b>	<b>1,117,570</b>
<b><u>General Expenses:</u></b>					
Salaries and Wages	179,019	42,345 (K)	221,364	0	221,364
Office Supplies & Other Office Expense	82,128	(3,374) (L)	78,754	0	78,754
Regulatory Commission Expense	14,392	47,008 (M)	61,400	0	61,400
Pension & Other Benefits	104,939	17,829 (N)	122,768	0	122,768
Rent	19,806	(1,335) (O)	18,471	0	18,471
Insurance	54,556	0	54,556	0	54,556
Office Utilities	146,452	0	146,452	0	146,452
Outside Services - Other	37,132	0	37,132	0	37,132
Miscellaneous	(374)	(19,664) (P)	(20,038)	0	(20,038)
<b>Total</b>	<b>638,050</b>	<b>82,809</b>	<b>720,859</b>	<b>0</b>	<b>720,859</b>
Depreciation	340,740	(11,132) (Q)	329,608	0	329,608
Amortization of CIAC	(2,045)	(78) (R)	(2,123)	0	(2,123)
Taxes Other Than Income	521,076	23,435 (S)	544,511	13,603 (HH)	558,114
Income Taxes - State & Federal	(40,375)	36,436 (T)	(3,939)	535,067 (II)	531,128
Amortization of Plant Acquisition Adjustment	19,473	(19,473) (U)	0	0	0
<b>Total</b>	<b>838,869</b>	<b>29,188</b>	<b>868,057</b>	<b>548,670</b>	<b>1,416,727</b>
<b>Total Operating Expenses</b>	<b>2,641,904</b>	<b>64,582</b>	<b>2,706,486</b>	<b>548,670</b>	<b>3,255,156</b>
<b>Total Operating Income</b>	<b>381,590</b>	<b>(53,946)</b>	<b>327,644</b>	<b>863,804</b>	<b>1,191,448</b>
Interest During Construction	(1,218)	1,218 (V)	0	0	0
Customer Growth	0	96 (W)	96	253 (JJ)	349
<b>Net Income for Return</b>	<b>380,372</b>	<b>(52,632)</b>	<b>327,740</b>	<b>864,057</b>	<b>1,191,797</b>
<b><u>Original Cost Rate Base:</u></b>					
Gross Plant in Service	15,617,584	(2,125,145) (X)	13,492,439	0	13,492,439
Accumulated Depreciation	(2,557,662)	309,073 (Y)	(2,248,589)	0	(2,248,589)
Net Plant in Service	13,059,922	(1,816,072)	11,243,850	0	11,243,850
Cash Working Capital	225,380	4,424 (Z)	229,804	0	229,804
Contributions in Aid of Construction	(123,238)	78 (AA)	(123,160)	0	(123,160)
Accumulated Deferred Income Taxes	(1,536,751)	0	(1,536,751)	0	(1,536,751)
Plant Acquisition Adjustment	1,083,984	(1,083,984) (BB)	0	0	0
Customer Deposits	(133,929)	0	(133,929)	0	(133,929)
<b>Total Rate Base</b>	<b>12,575,368</b>	<b>(2,895,554)</b>	<b>9,679,814</b>	<b>0</b>	<b>9,679,814</b>
<b>Return on Rate Base</b>	<b>3.03%</b>		<b>3.39%</b>		<b>12.31%</b>
<b>Operating Margin</b>	<b>-3.90%</b>		<b>-0.21%</b>		<b>19.29%</b>
<b>Interest Expense</b>	<b>498,420</b>	<b>(164,413) (CC)</b>	<b>334,007</b>		<b>334,007</b>

Note: Return on Rate Base in column (1) is calculated by using Total Operating Income divided by Total Rate Base.

Utilities Services of South Carolina, Inc.  
Docket No. 2013-201-WS  
Operating Experience, Rate Base and Rates of Return  
For the Test Year Ended December 31, 2012  
Sewer Operations

Description	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Applicant's Proposed Increase \$	(6) After Applicant's Proposed Increase \$
<b>Operating Revenues:</b>					
Service Revenues - Sewer	179,041	5,227 (A)	184,268	106,493 (DD)	290,761
Miscellaneous Revenues	5,187	(1,656) (B)	3,531	1,213 (EE)	4,744
Uncollectible Accounts	(2,217)	(248) (C)	(2,465)	(1,424) (FF)	(3,889)
<b>Total Operating Revenues</b>	<b>182,011</b>	<b>3,323</b>	<b>185,334</b>	<b>106,282</b>	<b>291,616</b>
<b>Maintenance Expenses:</b>					
Salaries and Wages	22,719	(2,031) (D)	20,688	0	20,688
Purchased Power	14,897	79 (E)	14,976	0	14,976
Purchased Sewer	0	0	0	0	0
Maintenance and Repair	50,608	(17,437) (F)	33,171	0	33,171
Maintenance Testing	26,664	0 (G)	26,664	0	26,664
Meter Reading	3,154	0	3,154	0	3,154
Chemicals	5,072	(207) (H)	4,865	0	4,865
Transportation	3,702	(697) (I)	3,005	0	3,005
Operating Expense Charged to Plant	(7,085)	(2,539) (J)	(9,624)	0	(9,624)
<b>Total</b>	<b>119,731</b>	<b>(22,832)</b>	<b>96,899</b>	<b>0</b>	<b>96,899</b>
<b>General Expenses:</b>					
Salaries and Wages	9,979	2,360 (K)	12,339	0	12,339
Office Supplies & Other Office Expense	12,607	(8,217) (L)	4,390	0	4,390
Regulatory Commission Expense	802	2,623 (M)	3,425	0	3,425
Pension & Other Benefits	5,850	994 (N)	6,844	0	6,844
Rent	1,104	0 (O)	1,104	0	1,104
Insurance	3,041	0	3,041	0	3,041
Office Utilities	8,164	0	8,164	0	8,164
Outside Services - Other	2,070	0	2,070	0	2,070
Miscellaneous	(21)	(1,096) (P)	(1,117)	0 (GG)	(1,117)
<b>Total</b>	<b>43,596</b>	<b>(3,336)</b>	<b>40,260</b>	<b>0</b>	<b>40,260</b>
Depreciation	21,426	(1,899) (Q)	19,527	0	19,527
Amortization of CIAC	0	0 (R)	0	0	0
Taxes Other Than Income	29,047	1,462 (S)	30,509	1,024 (HH)	31,533
Income Taxes - State & Federal	(2,251)	(9,459) (T)	(11,710)	40,262 (II)	28,552
Amortization of Plant Acquisition Adjustment	0	0 (U)	0	0	0
<b>Total</b>	<b>48,222</b>	<b>(9,896)</b>	<b>38,326</b>	<b>41,286</b>	<b>79,612</b>
<b>Total Operating Expenses</b>	<b>211,549</b>	<b>(36,064)</b>	<b>175,485</b>	<b>41,286</b>	<b>216,771</b>
<b>Total Operating Income</b>	<b>(29,538)</b>	<b>39,387</b>	<b>9,849</b>	<b>64,996</b>	<b>74,845</b>
Interest During Construction	(68)	68 (V)	0	0	0
Customer Growth	0	0 (W)	0	0 (JJ)	0
<b>Net Income for Return</b>	<b>(29,606)</b>	<b>39,455</b>	<b>9,849</b>	<b>64,996</b>	<b>74,845</b>
<b>Original Cost Rate Base:</b>					
Gross Plant in Service	1,050,720	(65,714) (X)	985,006	0	985,006
Accumulated Depreciation	(82,703)	6,925 (Y)	(75,778)	0	(75,778)
Net Plant in Service	968,017	(58,789)	909,228	0	909,228
Cash Working Capital	20,416	(3,271) (Z)	17,145	0	17,145
Contributions in Aid of Construction	0	0 (AA)	0	0	0
Accumulated Deferred Income Taxes	(85,664)	0	(85,664)	0	(85,664)
Plant Acquisition Adjustment	0	0 (BB)	0	0	0
Customer Deposits	(7,466)	0	(7,466)	0	(7,466)
<b>Total Rate Base</b>	<b>895,303</b>	<b>(62,060)</b>	<b>833,243</b>	<b>0</b>	<b>833,243</b>
<b>Return on Rate Base</b>	<b>-3.30%</b>		<b>1.18%</b>		<b>8.98%</b>
<b>Operating Margin</b>	<b>-31.53%</b>		<b>-10.20%</b>		<b>15.81%</b>
<b>Interest Expense</b>	<b>27,784</b>	<b>968 (CC)</b>	<b>28,752</b>		<b>28,752</b>

Note: Return on Rate Base in column (1) is calculated by using Total Operating Income divided by Total Rate Base.

Utilities Services of South Carolina, Inc.  
Docket No. 2013-201-WS  
Explanation of Accounting and Pro Forma Adjustments  
For the Test Year Ended December 31, 2012

<u>Description</u>	<u>\$</u> <u>Combined</u> <u>Operations</u>	<u>\$</u> <u>Water</u> <u>Operations</u>	<u>\$</u> <u>Sewer</u> <u>Operations</u>
<u>Accounting and Pro Forma Adjustments</u>			
<u>Operating Revenues</u>			
<b>(A) Service Revenues</b>			
1 To adjust service revenues to reflect test year customer billings.			
Per ORS	3,002	(2,225)	5,227
Per USSC	(37,997)	(38,941)	944
<b>(B) Miscellaneous Revenues</b>			
2 To adjust miscellaneous revenues to reflect increase in late payment and notification fees and other revenues.			
Per ORS	11,140	12,796	(1,656)
Per USSC	0	0	0
<b>(C) Uncollectible Accounts</b>			
3 To adjust uncollectible accounts to reflect accounting and pro forma adjustments to service revenues.			
Per ORS	(183)	65	(248)
Per USSC	509	521	(12)
<u>Maintenance Expenses</u>			
<b>(D) Salaries &amp; Wages</b>			
4 To annualize operators' salaries for the test year.			
Per ORS	(38,465)	(36,434)	(2,031)
Per USSC	(34,698)	(33,989)	(709)
<b>(E) Purchased Power</b>			
5 ORS agrees with USSC adjustment.			
Per ORS	(2,086)	(2,165)	79
Per USSC	(2,086)	(2,165)	79
<b>(F) Maintenance and Repair</b>			
6 To adjust for a net increase in maintenance and repair expense.			
Per ORS	48,551	65,988	(17,437)
Per USSC	0	0	0

**Utilities Services of South Carolina, Inc.**  
**Docket No. 2013-201-WS**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended December 31, 2012**

<u>Description</u>	<u>\$ Combined Operations</u>	<u>\$ Water Operations</u>	<u>\$ Sewer Operations</u>
<b>(G) Maintenance Testing</b>			
7 To remove DHEC Safe Drinking Water Fees.			
Per ORS	(19,944)	(19,944)	0
Per USSC	0	0	0
<b>(H) Chemicals</b>			
8 ORS proposes to adjust for nonallowables items.			
Per ORS	(3,928)	(3,721)	(207)
Per USSC	(1,166)	(1,193)	27
<b>(I) Transportation</b>			
9 To adjust for allocated transportation expense including fuel and auto repairs.			
Per ORS	(6,287)	(5,590)	(697)
Per USSC	(3,881)	(4,080)	199
<b>(J) Operating Expenses Charged to Plant</b>			
10 To adjust operating expense charged to plant (capitalized time) for actual salary expenses and associated taxes and benefits.			
Per ORS	(48,088)	(45,549)	(2,539)
Per USSC	2,796	3,815	(1,019)
<b><u>General Expenses</u></b>			
<b>(K) Salaries &amp; Wages</b>			
11 To annualize office salaries for the test year.			
Per ORS	44,705	42,345	2,360
Per USSC	17,432	16,644	788
<b>(L) Office Supplies &amp; Other Office Expense</b>			
12 To remove nonallowable amounts for fines and other items.			
Per ORS	(11,591)	(3,374)	(8,217)
Per USSC	(8,029)	0	(8,029)
<b>(M) Regulatory Commission Expense</b>			
13 To amortize current and previous rate case expenses over a five-year period.			
Per ORS	49,631	47,008	2,623
Per USSC	137,155	129,908	7,247

**Utilities Services of South Carolina, Inc.**  
**Docket No. 2013-201-WS**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended December 31, 2012**

<u>Description</u>	<u>\$ Combined Operations</u>	<u>\$ Water Operations</u>	<u>\$ Sewer Operations</u>
<b>(N) Pension &amp; Other Benefits</b>			
14 To annualize pension and other benefits associated with the adjusted test year salaries.			
Per ORS	18,823	17,829	994
Per USSC	14,021	13,192	829
<b>(O) Rent</b>			
15 To remove affiliated Company's portion of the rent.			
Per ORS	(1,335)	(1,335)	0
Per USSC	0	0	0
<b>(P) Miscellaneous</b>			
16 To remove nonallowable items.			
Per ORS	(20,760)	(19,664)	(1,096)
Per USSC	16,047	15,121	926
<b>(Q) Depreciation Expense</b>			
17 To annualize depreciation expense for known and measurable plant in service.			
Per ORS	(13,031)	(11,132)	(1,899)
Per USSC	(26,475)	(26,783)	308
<b>(R) Amortization of Contributions in Aid of Construction (CIAC)</b>			
18 To annualize the amortization of CIAC expense.			
Per ORS	(78)	(78)	0
Per USSC	(171)	(171)	0
<b>(S) Taxes Other Than Income</b>			
19 To adjust payroll taxes associated with the adjusted test year salaries.			
Per ORS	14,930	14,142	788
Per USSC	15,497	14,591	906
20 To adjust gross receipts and utility/commission taxes after the accounting and pro forma adjustments using a factor of .00963081 (.003 for SCDOR and .00663081 for PSC/ORS ).			
Per ORS	9,967	9,293	674
Per USSC	(355)	(364)	9
Total Per ORS	24,897	23,435	1,462
Total Per USSC	15,142	14,227	915

**Utilities Services of South Carolina, Inc.**  
**Docket No. 2013-201-WS**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended December 31, 2012**

<u>Description</u>	<u>\$ Combined Operations</u>	<u>\$ Water Operations</u>	<u>\$ Sewer Operations</u>
<b>(T) Income Taxes</b>			
21 To adjust state and federal income taxes after accounting and pro forma adjustments. See Audit Exhibit ICG-6.			
Per ORS	26,977	36,436	(9,459)
Per USSC	(79,663)	(50,275)	(29,388)
<b>(U) Amortization of Plant Acquisition Adjustment</b>			
22 To remove the amortization of Plant Acquisition Adjustment.			
Per ORS	(19,473)	(19,473)	0
Per USSC	0	0	0
<b>(V) Interest During Construction (IDC)</b>			
23 To eliminate IDC for rate making purposes.			
Per ORS	1,286	1,218	68
Per USSC	1,286	1,218	68
<b>(W) Customer Growth</b>			
24 To adjust for customer growth after the accounting and pro forma adjustments. The growth factor of .02934% for water was computed by the Water and Wastewater Department.			
Per ORS	96	96	0
Per USSC	0	0	0
<b>(X) Gross Plant in Service</b>			
25 To adjust plant in service for nonallowable items, recalculated capitalized time and retirements as of December 31, 2012.			
Per ORS	(2,610,365)	(2,524,326)	(86,039)
Per USSC	(460,692)	(435,064)	(25,628)
26 To adjust gross plant in service for net G/L additions occurring after the test year.			
Per ORS	419,506	399,181	20,325
Per USSC	1,275,947	708,733	567,214
Total Per ORS	(2,190,859)	(2,125,145)	(65,714)
Total Per USSC	815,255	273,669	541,586
<b>(Y) Accumulated Depreciation</b>			
27 To reduce accumulated depreciation for pro forma plant additions, retirements, nonallowable items and recalculated capitalized time, as well as, depreciation for vehicles and computers.			
Per ORS	315,998	309,073	6,925
Per USSC	224,356	208,808	15,548

**Utilities Services of South Carolina, Inc.**  
**Docket No. 2013-201-WS**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended December 31, 2012**

<u>Description</u>	<u>\$</u> <u>Combined</u> <u>Operations</u>	<u>\$</u> <u>Water</u> <u>Operations</u>	<u>\$</u> <u>Sewer</u> <u>Operations</u>
<b>(Z) Cash Working Capital</b>			
28 To adjust cash working capital after accounting and pro forma adjustments. See Audit Exhibit ICG-7.			
Per ORS	1,153	4,424	(3,271)
Per USSC	18,116	18,009	107
<b>(AA) Contributions in Aid of Construction (CIAC)</b>			
29 To adjust CIAC to reflect the amortization of CIAC expense as a result of ORS Adjustment 19.			
Per ORS	78	78	0
Per USSC	167	167	0
<b>(BB) Plant Acquisition Adjustment</b>			
30 To remove the Plant Acquisition Adjustment from Rate Base			
Per ORS	(1,083,984)	(1,083,984)	0
Per USSC	(1,083,984)	(1,083,984)	0
<b>(CC) Interest Expense</b>			
31 To adjust interest on debt using a 52.44% and 47.56% debt to equity ratio and 6.58% cost of debt. ORS computed allowable interest expense after accounting and pro forma adjustments. See Audit Exhibit ICG-8.			
Per ORS	(163,445)	(164,413)	968
Per USSC	(60,641)	(83,157)	22,516
<b><u>Proposed Increase</u></b>			
<b>(DD) Service Revenues</b>			
32 To adjust water and sewer service revenues for ORS's recalculation of the Company's proposed rate increase.			
Per ORS	1,487,924	1,381,431	106,493
Per USSC	1,468,356	1,364,339	104,017
<b>(EE) Miscellaneous Revenues</b>			
33 To adjust miscellaneous revenues for ORS's recalculation of the Company's proposed rate increase.			
Per ORS	50,727	49,514	1,213
Per USSC	0	0	0
<b>(FF) Uncollectible Accounts</b>			
34 To adjust for uncollectible accounts associated with the Company's proposed rate increase.			
Per ORS	(19,895)	(18,471)	(1,424)
Per USSC	(19,557)	(18,269)	(1,288)

**Utilities Services of South Carolina, Inc.**  
**Docket No. 2013-201-WS**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended December 31, 2012**

<u>Description</u>	<u>\$</u> <u>Combined</u> <u>Operations</u>	<u>\$</u> <u>Water</u> <u>Operations</u>	<u>\$</u> <u>Sewer</u> <u>Operations</u>
<b>General Expenses:</b>			
<b>(GG) Miscellaneous</b>			
35 To adjust miscellaneous expenses related to Company's requested Leak Mitigation Program			
Per ORS	0	0	0
Per USSC	7,342	6,822	520
<b>(HH) Taxes Other Than Income</b>			
36 To adjust gross receipts and utility/commission taxes associated with the Company's proposed increase using a factor of .00963081 (.003 for SCDOR and .00663081 for PSC/ORS ).			
Per ORS	14,627	13,603	1,024
Per USSC	13,738	12,765	973
<b>(II) Income Taxes</b>			
37 To adjust state and federal income taxes associated with the Company's proposed increase. See Audit Exhibit ICG-6.			
Per ORS	575,329	535,067	40,262
Per USSC	546,103	507,380	38,723
<b>(JJ) Customer Growth</b>			
38 To adjust for customer growth after proposed increase. The growth factor of .02934% for water was computed by the Water and Wastewater Department.			
Per ORS	253	253	0
Per USSC	0	0	0



**Utilities Services of South Carolina, Inc.**  
**Depreciation and Amortization Expense Adjustments**  
**Docket No. 2013-201-WS**  
**For the Test Year Ended December 31, 2012**

	<b>Combined Operations</b>	<b>Water Operations</b>	<b>Sewer Operations</b>
	\$	\$	\$
<b><u>Depreciation Adjustment</u></b>			
Gross Plant @ 12/31/12	16,668,304	15,617,584	1,050,720
Add:			
Net Plant Additions Adjustment @ 09/01/13	(2,190,859)	(2,125,145)	(65,714)
Less:			
Organization @ 09/01/13	(233,231)	(207,814)	(25,417)
Land @ 09/01/13	(242,309)	(241,499)	(810)
Vehicles @ 09/01/13	(247,173)	(232,397)	(14,776)
Computers @ 09/01/13	(589,586)	(558,435)	(31,151)
Northbrook Allocated @12/31/12(Per USSC UA Balance)	(233,795)	(221,451)	(12,344)
<b><u>Net Plant</u></b>	12,931,351	12,030,843	900,508
Plant Depreciation @ 1.5% (66.67 years)	193,971	180,463	13,508
<b><u>Vehicles @ 09/01/13</u></b>	247,173	232,397	14,776
Less: Fully Depreciated Vehicles	(81,011)	(76,731)	(4,280)
<b><u>Net Vehicles</u></b>	166,162	155,666	10,496
Vehicle Depreciation @ 16.67% (6 years)	27,700	25,950	1,750
<b><u>Computers @ 09/01/13</u></b>	589,586	558,435	31,151
Less: Fully Depreciated Computers	0	0	0
<b><u>Net Computers</u></b>	589,586	558,435	31,151
Computer Depreciation @ 12.5% (8 years)	73,698	69,804	3,894
Add: Depreciated Northbrook Assets	7,098	6,723	375
Extraordinary Depreciation for Test Year (over 10 years)*	46,668	46,668	0
<b><u>Total Depreciation</u></b>	349,135	329,608	19,527
Less: Per Books Depreciation	362,166	340,740	21,426
<b><u>ORS Adjustment - Adj. 17</u></b>	(13,031)	(11,132)	(1,899)
Company's Adjustment	(26,475)	(26,783)	308
<b><u>Amortization of CIAC Adjustment</u></b>			
Gross CIAC @ 12/31/12	(136,567)	(136,567)	0
Add: 2013 CIAC	(4,950)	(4,950)	0
<b><u>ORS Adjusted CIAC</u></b>	(141,517)	(141,517)	0
CIAC Amortization @ 1.5% (66.67 years)	(2,123)	(2,123)	0
Less: Per Books Amortization of CIAC	(2,045)	(2,045)	0
<b><u>ORS Adjustment - Adj. 18</u></b>	(78)	(78)	0
Company's Adjustment	(171)	(171)	0

\* Extraordinary Retirement of Purdy Shores and Foxwood treatment plant.

Utilities Services of South Carolina, Inc.  
Docket No. 2013-201-WS  
Computation of Income Taxes  
For the Test Year Ended December 31, 2012

**After Accounting & Pro Forma Adjustments**

	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
Operating Revenues	3,219,464	3,034,130	185,334
Operating Expenses	<u>2,897,620</u>	<u>2,710,425</u>	<u>187,195</u>
Net Operating Income Before Taxes	321,844	323,705	(1,861)
Less: Annualized Interest Expense	<u>362,759</u>	<u>334,007</u>	<u>28,752</u>
Taxable Income - State	(40,915)	(10,302)	(30,613)
State Income Tax %	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>
State Income Taxes	(2,046)	(515)	(1,531)
Less: State Income Taxes Per Book	<u>32,053</u>	<u>30,361</u>	<u>1,692</u>
<b>Adjustment to State Income Taxes</b>	<b><u>(34,099)</u></b>	<b><u>(30,876)</u></b>	<b><u>(3,223)</u></b>
Taxable Income - Federal	(38,869)	(9,787)	(29,082)
Federal Income Taxes %	<u>35.0%</u>	<u>35.0%</u>	<u>35.0%</u>
Federal Income Taxes	(13,604)	(3,425)	(10,179)
Less: Federal Income Taxes Per Book	<u>(74,680)</u>	<u>(70,737)</u>	<u>(3,943)</u>
<b>Adjustment to Federal Income Taxes</b>	<b><u>61,076</u></b>	<b><u>67,312</u></b>	<b><u>(6,236)</u></b>
<b>Total Adjustment to Income Taxes - Adj. 21</b>	<b><u>26,977</u></b>	<b><u>36,436</u></b>	<b><u>(9,459)</u></b>

**After Applicant's Proposed Increase**

	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
Operating Revenues	4,738,220	4,446,604	291,616
Operating Expenses	<u>2,912,247</u>	<u>2,724,028</u>	<u>188,219</u>
Net Operating Income Before Taxes	1,825,973	1,722,576	103,397
Less: Annualized Interest Expense	<u>362,759</u>	<u>334,007</u>	<u>28,752</u>
Taxable Income - State	1,463,214	1,388,569	74,645
State Income Tax %	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>
State Income Taxes	73,160	69,428	3,732
Less: State Income Taxes As Adjusted	<u>(2,046)</u>	<u>(515)</u>	<u>(1,531)</u>
<b>Adjustment to State Income Taxes</b>	<b><u>75,206</u></b>	<b><u>69,943</u></b>	<b><u>5,263</u></b>
Taxable Income - Federal	1,390,054	1,319,141	70,913
Federal Income Taxes %	<u>35.0%</u>	<u>35.0%</u>	<u>35.0%</u>
Federal Income Taxes	486,519	461,699	24,820
Less: Federal Income Taxes As Adjusted	<u>(13,604)</u>	<u>(3,425)</u>	<u>(10,179)</u>
<b>Adjustment to Federal Income Taxes</b>	<b><u>500,123</u></b>	<b><u>465,124</u></b>	<b><u>34,999</u></b>
<b>Total Adjustment to Income Taxes - Adj. 37</b>	<b><u>575,329</u></b>	<b><u>535,067</u></b>	<b><u>40,262</u></b>

**Utilities Services of South Carolina, Inc.**  
**Docket No. 2013-201-WS**  
**Cash Working Capital Allowance**  
**For the Test Year Ended December 31, 2012**

<u>After Accounting &amp; Pro Forma Adjustments</u>	<u>\$ Combined Operations</u>	<u>\$ Water Operations</u>	<u>\$ Sewer Operations</u>
Maintenance Expenses	1,214,469	1,117,570	96,899
General Expenses	<u>761,119</u>	<u>720,859</u>	<u>40,260</u>
Total Expenses for Computation	1,975,588	1,838,429	137,159
Allowable Rate	<u>12.50%</u>	<u>12.50%</u>	<u>12.50%</u>
Computed Cash Working Capital	246,949	229,804	17,145
Cash Working Capital - Application Per Books	<u>245,796</u>	<u>225,380</u>	<u>20,416</u>
<b>Cash Working Capital Adjustment - ORS Accounting &amp; Pro Forma Adjustment - Adj. 28</b>	<u><u>1,153</u></u>	<u><u>4,424</u></u>	<u><u>(3,271)</u></u>
Cash Working Capital Adjustment - USSC	<u><u>18,116</u></u>	<u><u>18,009</u></u>	<u><u>107</u></u>

Utilities Services of South Carolina, Inc.  
Docket No. 2013-201-WS  
Return on Equity  
Capital Structure at December 31, 2012

Surrebuttal Exhibit ICG-8

Combined Operations

Description	(Note) Capital Structure	Application Per Books			After Accounting and Pro forma Adjustments				After Applicant's Proposed Increase			
		Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return
Long-Term Debt	\$ 180,000,000	7,064,020	6.58%	3.45%	\$ 464,813	5,513,047	6.58%	3.45%	\$ 362,758	5,513,047	6.58%	3.45%
Members' Equity	163,255,970	6,406,651	-1.78%	-0.86%	(114,047)	5,000,010	-0.50%	-0.24%	(25,169)	5,000,010	18.08%	8.60%
Totals	\$ 343,255,970	13,470,671	2.59%		350,766	10,513,057		3.21%	337,589	10,513,057		12.05%

Water Operations

Description	Capital Structure	Application Per Books			After Accounting and Pro forma Adjustments				After Applicant's Proposed Increase			
		Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return
Long-Term Debt	\$ 180,000,000	6,594,523	6.58%	3.45%	\$ 433,920	5,076,094	6.58%	3.45%	\$ 334,007	5,076,094	6.58%	3.45%
Members' Equity	163,255,970	5,980,845	-0.90%	-0.43%	(53,548)	4,603,720	-0.14%	-0.06%	(6,267)	4,603,720	18.62%	8.86%
Totals	\$ 343,255,970	12,575,368	3.02%		380,372	9,679,814		3.39%	327,740	9,679,814		12.31%

Sewer Operations

Description	Capital Structure	Application Per Books			After Accounting and Pro forma Adjustments				After Applicant's Proposed Increase			
		Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return
Long-Term Debt	\$ 180,000,000	469,497	6.58%	3.45%	\$ 30,893	436,953	6.58%	3.45%	\$ 28,752	436,953	6.58%	3.45%
Members' Equity	163,255,970	425,806	-14.21%	-6.76%	(60,499)	396,290	-4.77%	-2.28%	(18,903)	396,290	11.62%	5.53%
Totals	\$ 343,255,970	895,303	-3.31%		(29,606)	833,243		1.17%	9,849	833,243		8.98%

Note: ORS used the capital structure of the parent company, Utilities, Inc.